

LCQ3: Demand-side management measures for the property market

Following is a question by the Hon Jimmy Ng and a reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (July 8):

Question:

Owing to the economic downturn in Hong Kong, various trades are now facing tremendous operating pressure, and the banks also tend to be more prudent in commercial lending. Some owners of enterprises intend to sell their properties to meet cash flow needs. However, the various demand-side management measures for the property market (commonly referred to as "harsh measures") have greatly increased the difficulty in cashing out. In this connection, will the Government inform this Council:

(1) as it is learnt that the Singapore Government intends to relax its demand-side management measures for the property market to attract international capital to invest in Singapore, thereby boosting its economy, whether the authorities have assessed this situation and considered, before this major competitor in the Asian region launches the relevant measures, lowering the rates of ad valorem stamp duty to the previous levels to enhance Hong Kong's competitiveness; and

(2) as some business operators have suggested that even if the Government does not immediately "withdraw the harsh measures" in one go for fear of affecting the opportunities for members of the public to buy their own homes, it should at least implement the following three measures: (i) gradually lowering the ad valorem stamp duty rate from the current 15 per cent to the previous levels; (ii) revising the arrangement under which a person, who replaces his/her property by acquiring a new residential property before disposing of his/her only original residential property, is required to pay the stamp duty first before they may apply for refund for the stamp duty paid; and (iii) "withdrawing the harsh measures" for non-residential property transactions, whether the authorities will implement these measures; if so, of the details; if not, the reasons for that?

Reply:

Acting President,

One of the important objectives of the Hong Kong Special Administrative Region Government's housing policies is to maintain the healthy development of the property market. Over the past few years, in light of the actual situation of the local property market, the Government has adopted a two-pronged approach by striving to increase both land and housing supply to meet demand, and introducing several rounds of demand-side management measures to

combat short-term speculative activities and reduce investment and external demands. These measures aim to prevent further exuberance in the property market which may pose significant risks to our macroeconomic and financial stability, to ensure the healthy development of the property market, and to accord priority to home ownership needs of Hong Kong permanent residents amidst the prevailing tight housing supply. When formulating policies related to the property market, different countries and regions put in place appropriate measures based on their local economic and property market conditions as well as their own policy considerations.

The Hon Ng suggested that lowering the rates of stamp duty on property might help attract foreign investments and enhance Hong Kong's competitiveness. The Government reckons that investors will consider a wide range of factors when identifying a location to set up business, including business environment and opportunities, tax regime and tax rates, and cost of operation. Given the actual situation of Hong Kong's property market at present, demand-side management measures can ensure the healthy development of the property market, which is conducive to a stable business environment, thus maintaining Hong Kong's competitiveness as an international financial and business centre.

The Government understands that enterprises may face greater cash flow pressure under the current economic conditions. In this year's Budget and under the two rounds of Anti-epidemic Fund, the Government has launched a series of relief measures totalling over \$280 billion to alleviate the financial burden of enterprises. These include the launch of the Special 100% Loan Guarantee for small and medium enterprises and the Employment Support Scheme for eligible enterprises to ease their cash flow difficulties.

In consultation with the Transport and Housing Bureau, my consolidated reply to the two parts of the question raised by the Hon Ng is as follows:

In considering whether stamp duty rates concerning residential properties should be adjusted, the Government must carefully take into account the impact of relevant arrangements on the property market as a whole. Owing to global and local factors, the residential property market has turned quieter since the second half of 2019. Property prices, though retreated slightly, have shown signs of rebound recently. Overall property prices remain at a level beyond the affordability of the general public. The home purchase affordability ratio (Note) in the first quarter of 2020 still stayed at a high level of 73 per cent, well above the 20-year long-term average of 45 per cent from 2000 to 2019.

Any move to relax demand-side management measures or to lower stamp duty rates may be speculated by the market as a signal for adjustments to the Government's policies on the property market. It may also stimulate demand for local residential properties from some citizens, and lead to a counter-productive result of pushing up property prices when the current housing supply still lags behind demand. Therefore, the Government must act prudently.

For non-residential properties, the Government's objective of introducing the doubled ad valorem stamp duty is to forestall the spread of the overheating in the residential property market to the non-residential property market. Although the prices of non-residential properties have been trending downwards since 2019, they still stood at relatively high levels. The Government will continue to monitor the market situation closely.

Under the existing mechanism, if a Hong Kong permanent resident acquires a new residential property to replace his/her only original residential property, he/she has to pay the relevant stamp duty first and claim partial refund of the stamp duty paid after disposing of the original property. The Government acknowledges that the arrangement may increase the acquisition costs for persons replacing their residential properties. However, if the relevant requirements are relaxed, it may invite some owners without genuine intention to dispose of their original properties to, under the guise of property replacement, defer payment of stamp duty or hold more than one residential property for a longer period with a view to making profits. This is at variance with the policy intent of introducing demand-side management measures and goes against taking care of the practical needs of Hong Kong permanent residents in replacing their properties.

The Government will, as always, keep watch on the market conditions and take timely and appropriate measures in response to market changes by making reference to a series of indicators, including property prices, the home purchase affordability ratio, transaction volume and supply of properties, and local and global economic changes, with a view to ensuring the healthy development of the property market.

Note: Home purchase affordability ratio refers to the ratio of mortgage payment for a 45-square metre flat to median income of households (excluding those living in public housing), at the prevailing mortgage rate for a tenure of 20 years.